

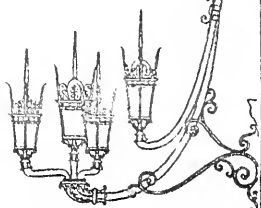
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The Hotel Market in Boston and Ten Other Cities

The Outlook for Boston to the Year 2005

June 1992

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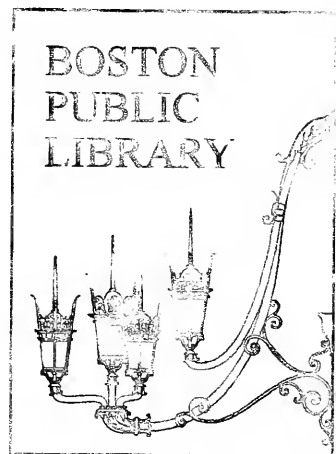


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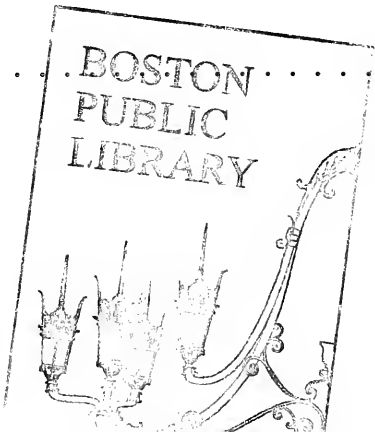
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EXECUTIVE SUMMARY

This report examines Boston's current local and regional tourism and hotel markets, compares the Boston's performance with that of 10 other large North American cities, projects demand for hotel accommodations to the year 2005 with prospects for development, and describes the economic characteristics of Boston's hotel and tourism industries. Boston's reputation as a site of American historic events, architecture, and culture, its role as a locus of intellectual, commercial, and financial activity, and its flair as a cosmopolitan and international city provide many visitors with the occasion to travel to the City and its environs.

- In 1991, Downtown / Back Bay was the strongest hotel market in Greater Boston, experiencing the highest occupancy and room rates. Hotels in Cambridge and in Boston outside of downtown have also done well, while hotels in the Route 128 corridor have not done as well.
- Greater Boston luxury hotels, those charging over \$100 per night, have maintained the highest occupancy rates. The Downtown / Back Bay hotels represent 85% of the luxury hotel rooms in Greater Boston, reflecting the strength of Boston. The 1991 occupancy rate for the top luxury hotels charging over \$120 per night was 74.5%, a small decline from 76.9% in 1990.
- Market information indicates that the Boston area hotel industry remains healthy despite three years of a slack regional economy. The average room occupancy rate of all hotels in the City of Boston and Cambridge in 1991 was 68.3%. This represented an 8.3% drop from the high mark of 74.5% reached in 1988, while the 1991 Greater Boston rate of 65.4% remained above the 65% national average for major U.S. hotel markets. The average daily room rate in Greater Boston in 1991 was \$116.47, a 2.9% rise from the \$113.21 in 1988, but a small decline from the \$120.21 peak in 1990.
- In comparison with hotel markets of 10 other large North American non - resort cities, the Boston area ranked best in occupancy rate and second highest in average daily room rates based on 1990 data.
- Data solely for the downtowns of Boston and six other cities for which data are available also point to the comparative health of Boston's hotel industry. In 1991, Boston's occupancy rate, at 69%, ranked second to that for San Francisco and Boston's daily room rate at \$121.47 ranked highest. While some other downtowns have experienced as much as a 20% decline in occupancy since 1988, the fact that Boston has not added any new rooms since 1987 has helped keep its occupancy rates high.
- Patterns of seasonality in the monthly hotel occupancy rates of Boston illustrate that its hotels have a nine-month period of very high occupancies contrasting with three months of very low activity in the winter. In Boston, for six months of each year, occupancies are over 80%. Other cities with comparable annual average occupancy, such as New York and San Francisco, experience only 3 months of occupancies over 80%.
- The outlook for Boston to the year 2005 is for steadily growing demand and a continued favorable match between supply and demand for hotel accommodations, particularly in areas closer to downtown. To maintain a 70% rate of hotel occupancy through the year

2005 it is projected that Boston's growth in hotel demand, tracked closely to projected rates of growth of the U.S. GNP, will call for the construction of approximately 268 annual net new rooms, or 4,027 over the fifteen year period from 1990 through 2005.

- Prospects for new hotel development through the year 2005 remain bright in Boston. There will be demand for more hotels in Boston, particularly for more centrally located downtown sites which hold up well in economically weak years and prosper in strong years. As of spring 1992, one new hotel, the Hyatt Hotel and Conference Center with 270 rooms, was under construction in the City at Logan International Airport, and is scheduled to open in late 1993. However, this hotel is more likely to host conference groups and not compete on a general basis. In addition, two projects are on the drawing board; a 340 room renovation of the Custom House and Board of Trade buildings downtown by Intercontinental Hotels and the Beal Companies, and a 330 room hotel on Northern Avenue across from the World Trade Center at Commonwealth Pier by John Drew Company.
- Of the 8.2 million total visitors in 1991, Tourists accounted for one-third of the total economic impact of Greater Boston's visitor industry and one-fifth of all hotel room nights sold. Boston and its suburbs attracted 4.3 million tourists in 1991. Demographic trends will continue to favor tourist travel in Massachusetts as the baby boom generation ages and gains higher levels of personal income.
- Boston's services and information-oriented economy engenders face to face meetings and in-person negotiations which contribute to the growing number of business visitors to the City. In 1991, the Boston area hosted 2.6 million business visitors, which account for 47% of hotel room nights sold and an even larger proportion of room sales in the centrally located, luxury hotels.
- Boston attracts a variety of convention groups and is particularly suited to meetings related to health care, the computer industry, and higher education. Total business meeting visitors to Boston reached 1.1 million in 1991, up from 662,000 in 1983 but down marginally from the high of 1.09 million reached in 1990.
- Efforts to upgrade Boston's cultural, tourist, and sports attractions are proceeding with an eye toward stimulating the economic benefits of travel to the City and region. A list of such near-term projects includes: A New Boston Garden with better and larger capacities for sports, entertainment, or convention activities; the renovation of two historic sites, The Old State House and Faneuil Hall, by the National Park Service; an expanded Children's Museum; and construction of civic memorials such as the Holocaust Memorial sculpture.
- Recent marketing strategies to promote tourism have been taken by the Greater Boston Convention and Visitors Bureau, the City of Boston, and the Massachusetts Office of Travel and Tourism. Specific efforts to offset seasonal fluctuations and increase visitors and hotel occupancy during the off-peak months of December, January and February have included "First Night" celebrations of New Year's Eve and "The Boston Festival", a week-long winter gala of performing arts exhibitions. Special marketing efforts for tourism during the rest of the year include the successful bid of Greater Boston to become one of nine regional sites of the World Cup Soccer Tournament in the U.S. in 1994, international travel promotion to European countries, the 1992 Sail Boston Tall Ships week and Harborfest in July, and efforts to accommodate and encourage more affordable travel for families and children.

I. INTRODUCTION

Boston's reputation as a site of American historic events, architecture, and culture; its role as a locus of intellectual, commercial, and financial activity; and its flair as a cosmopolitan and international city provide many visitors with the occasion to travel to the City and its environs. When special meetings, events, or celebrations are occurring Boston bustles with activity that generates numerous economic benefits for businesses and workers alike. Even in years when the economy is slack or few special events are planned Boston still attracts millions of visitors. Travelers to Boston, no matter what their destination, have a positive effect on the economy and vitality of the hotels, restaurants, stores, and tourist attractions in the City.

The 1990's will add further depth and diversity to Boston's attraction as a destination for visitors. Boston's economy, now specialized in business, professional, and financial services as well as educational and medical institutions has a strong base to begin with. In the 1990s, a new constellation of knowledge-based industries and sophisticated services are also emerging in the region that will add to that economic base, including medical research laboratories and biotechnology firms, environmental engineering services, and businesses that produce computer software, robotics, and telecommunications equipment.

In addition, Boston's attraction as a site for tourists and meeting visitors is expected to be upgraded beyond its already favorable status. Several sites, historic, cultural, and tourist attractions and sports facilities are actively planning improvements.

Contributing to the City's ability to accommodate visitors and add to Boston's reputation as a travelers' destination is an array of local, regional, and international hotels that can accommodate visitors to Boston from across the nation as well as from around the globe. Dining, entertainment and shopping opportunities are also bountiful.

This report, prepared by the Policy Development and Research Department of the Boston Redevelopment Authority, was undertaken to determine how healthy Boston's hotel and tourism industry has been over the last few years and to anticipate future trends and prospects for development with a realistic eye on both general economic events and specific industry trends. Although all projections are subject to some error and capture only a partial view of forthcoming events, it is possible to reasonably determine the major trends that may occur.

This report examines Boston's current local and regional tourism and hotel markets, compares the Boston performance with that of 10 other large North American cities, projects demand for hotel accommodations to the year 2005 with prospects for development, and describes the economic characteristics of Boston's hotel and tourism industries.

II. THE BOSTON REGIONAL HOTEL MARKET

Data are available for the Boston area hotel market for all of 1991. Using comparisons of annual averages, market information indicates that the Boston hotel industry remains healthy after a year that brought slight reductions in average room occupancy and in average daily room rates.

Boston and Regional Hotel Market Trends

The Downtown/Back Bay hotel market is the strongest in Greater Boston, experiencing the highest occupancy and room rates. The Downtown/Back Bay market has 9,156 hotel rooms in an area of approximately 3 square miles. This market posted an occupancy rate of 69.0% in 1991 but it was below the 75% peak experienced in 1988. Average daily room rates increased 4.5% over this period, from \$116.21 in 1988 to \$121.47 in 1991. See Table 1 and Figure 1.

TABLE 1. REPORT OF ROOMS BUSINESS IN GREATER BOSTON, 1988 - 1991

Area	Hotel Occupancy Rate				Average Daily Room Rate			
	1988	1989	1990	1991	1988	1989	1990	1991
Boston	74.5%	71.5%	72.2%	68.3%	\$113.21	\$117.61	\$120.21	\$116.47
Downtown/Back Bay*	75.0%	72.3%	72.5%	69.0%	\$116.21	\$121.72	\$124.59	\$121.47
Cambridge/Other Boston*	72.5%	70.5%	70.6%	67.3%	\$101.30	\$102.47	\$102.10	\$ 97.27
128 North	64.3%	64.5%	51.3%	49.9%	\$ 68.84	\$ 69.97	\$ 71.68	\$ 66.62
128 South	69.4%	59.5%	61.0%	57.4%	\$ 67.71	\$ 71.09	\$ 69.50	\$ 68.30
Greater Boston Total	73.0%	70.0%	69.0%	65.4%	\$105.64	\$111.32	\$111.63	\$108.29

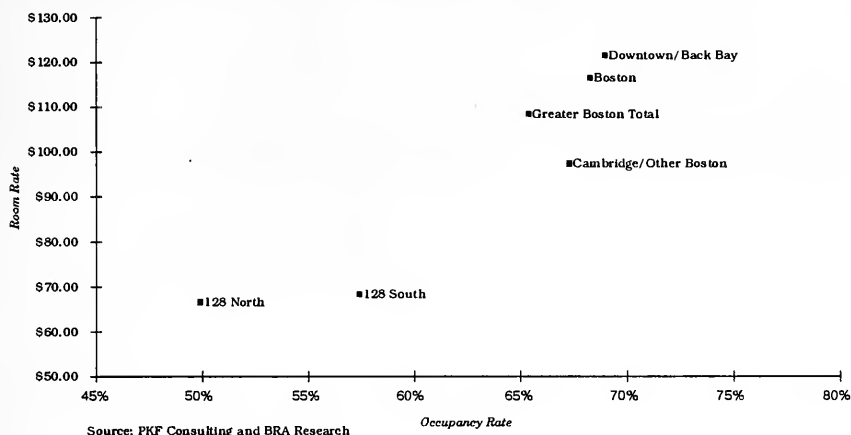
Note: *Downtown / Back Bay and Cambridge / Other Boston are based on weighted averages

Source: PKF Consulting, Trends in the Hotel Industry, 1988 - 1991 and Boston Redevelopment Authority, Research Department

The Boston hotel market, comprised of Downtown/Back Bay and Cambridge held up better than most others in Massachusetts. PKF Consulting reported that the average hotel room occupancy rate in the cities of Boston and Cambridge in 1991 was 68.3%, a drop of 8.3% from the peak of 74.5% posted in 1988. The average daily room rate, in the Boston market, fell marginally to \$116.47 in 1991 from \$120.21 in 1990, but it is still up from the \$113.21 in 1988.

The regional hotel market in Massachusetts showed some decline in 1991 data compared to 1990. The Greater Boston hotel occupancy rate fell to 65.4% from 69.0%, a decline of 5.2%. The average room rate in Greater Boston was \$108.29, a decline of 3.0% from the 1990 rate of \$111.63.

Occupancy in the Route 128 hotel markets continued to slide during 1991, reflecting in part the weakness of the metro area. Occupancy rates in the 128 North market fell by over 14 percentage points from 1988, to 49.9%, while that of 128 South fell by 12 points to 57.4%.

FIGURE 1. REPORT OF ROOMS BUSINESS IN GREATER BOSTON, 1991


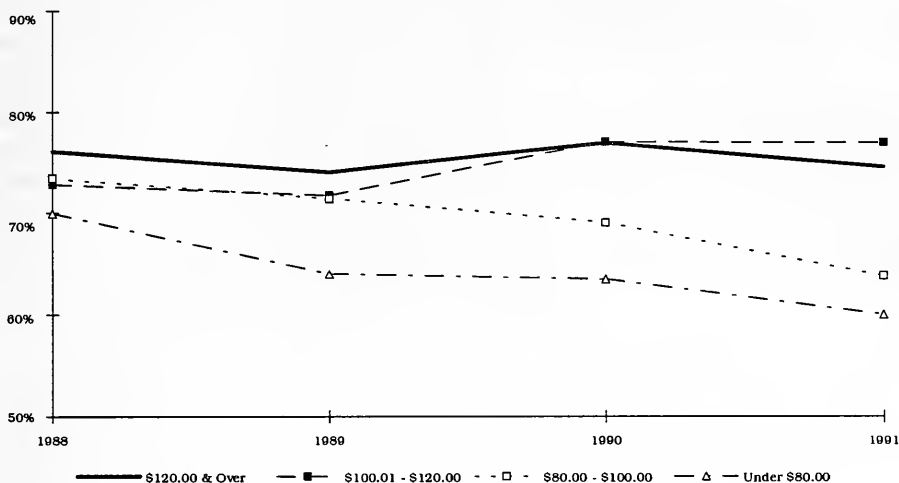
Higher-priced hotels have been the better performers in Boston's hotel market over the recessionary period of 1988-1991. Occupancy data illustrate that the upper two quartiles of hotels with average daily prices of \$100 and greater have held up better during the poorer economy compared with the lower two quartiles. The top quartile peaked at 76.9% occupancy in 1990 and fell to 74.5% in 1991. During that same time period the second quartile with \$100 to \$120 average daily rates dropped marginally - only 0.1 percentage point to 76.9%. The majority of the luxury hotel rooms in Greater Boston are located in the Downtown/Back Bay market. There are 1,970 luxury hotel rooms in Greater Boston with 1,676 of those rooms located in the Downtown/Back Bay market - 85% of the total. The lower-priced hotels consistently showed declining occupancy rates between 1988 and 1991. See Table 2 and Figure 2.

TABLE 2. GREATER BOSTON AVERAGE HOTEL OCCUPANCY RATES FOR DAILY ROOM RATES

Average Daily Rate	Categories, 1988 - 1991				Sample Size (Number of Hotel Rooms)
	1988	1989	1990	1991	
\$120.00 & Over	76.1%	74.0%	76.9%	74.5%	1,970
\$100.01 - \$120.00	72.8%	71.7%	77.0%	76.9%	1,261
\$80.00 - \$100.00	73.4%	71.4%	69.0%	63.8%	4,996
Under \$80.00	70.0%	64.0%	63.5%	60.0%	2,760
Greater Boston Total	73.0%	70.0%	69.0%	65.4%	10,987

Note: *Downtown / Back Bay represent 85 percent or 1,676 of all rooms \$120.00 and Over in Greater Boston.

Source: PKF Consulting, "Trends in the Hotel Industry" and Boston Redevelopment Authority Research Dept.

FIGURE 2. GREATER BOSTON AVERAGE HOTEL OCCUPANCY RATES FOR DAILY ROOM RATE CATEGORIES, 1988-1991

Source: PKF Consulting and Boston Redevelopment Authority, Research Department.

A decade of trends in Boston's annual average occupancy rate and daily room rate shows just how well the hotel market has been doing. Occupancy rates started at the recession low of 68.1% in 1982 and tracked upward to a peak of 74.5% in 1988, pausing only for a slight decline during 1985. Between 1988 and 1991 occupancy rates fell from 74.5% to 68.3%. Daily average room rates went from \$69.11 in 1982 to \$120.21 in 1990, falling to only \$116.47 during 1991. Over the course of this period Boston averaged 70.7% in occupancy and \$96.96 in daily room rate. Today Boston's occupancy and room rates are above the levels of a decade earlier even after the addition of nearly 4,400 hotel rooms. See Table 3.

Unlike 1985, when several additions to the hotel room stock reduced the average occupancy rates, the decrease in average occupancy rates in 1991 was not tied to additions to stock.

TABLE 3. ANNUAL AVERAGE OCCUPANCY AND DAILY ROOM RATES IN BOSTON, 1982-1991

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	Mean Rate
Occupancy	68.1%	68.1%	69.5%	68.9%	72.3%	73.3%	74.5%	71.5%	72.2%	68.3%	70.7%
Room Rate	\$69.11	\$74.18	\$81.20	\$85.24	\$90.79	\$101.60	\$113.21	\$117.61	\$120.21	\$116.47	\$96.96

Note: Boston Data includes Cambridge from June 1989 through Year-end 1991.

Source: PKF Consulting and Boston Redevelopment Authority, Research Department.

In 1987 there was one new hotel and two hotel renovations: the new 230 room Boston Harbor Hotel at Rowes Wharf, the 60 room addition to the Inn at Children's Hospital and the renovation of the former Bradford Hotel into the Quality Inn which resulted in a net loss of 34 rooms. There were no additions in 1989 and 1990, and the only 1991 addition was the 113 room Inn at Harvard in Cambridge.

The hotel market is tied to the overall number of visitors to the City. Preliminary estimates indicate that there were 8.2 million visitors in 1991 compared with 8.5 million in 1990. The Greater Boston Convention and Visitors Bureau reported that these visitors generated about \$6.5 billion in total economic activity of direct and indirect spending within the area.

The drop in the number of visitors between 1990 -1991 was mainly due to less travel during the Gulf War, the regional and national economic recession, and the lack of special exhibits at Boston museums compared with events of other years.

Two factors contributing to the decrease in business and convention related travel were the desire of businesses to control expense in tougher economic times and the tendency of conventions planners to book Boston and east coast cities on even numbered years. The outlook for tourism in 1992, however, is excellent with as many as 10 million visitors expected, mainly due to more special events such as Sail Boston '92 in July, and the regional economy beginning to recover from three years in the doldrums.

In sum, Boston's hotel market showed a mild downturn in 1991 following two years of relatively good performance despite a regional economy that began a sharp decline after 1988, following the fast-paced growth of 1984-1988.

III. COMPARATIVE CITIES HOTEL MARKETS

This study of the hotel markets in eleven cities compares trends in hotel occupancy rates, average daily room costs, and the construction of new hotels during the period 1988 through 1991. PKF Consulting data show that Boston's hotel market was relatively healthy despite the recent softening of performance evident here and in most other cities during 1990 and 1991. Boston's occupancy rate remains at a level most analysts would consider good or excellent. Daily room rates are also high, which makes for the financial success of properties although it does prove costly for some segments of the visitor market. Boston's downtown hotels are also doing well compared with downtown hotels of other cities which show either good or only marginal market performance.

The Boston Hotel Market Compared with Ten Other Cities

Average hotel occupancy rates in Boston, compared with 10 other cities for 1988 through 1990 illustrates the strength of the Boston hotel market. In 1990 Boston ranked second only to New York in hotel occupancy with an average occupancy rate of 72.2%. According to an estimate by PKF Consulting, in 1991 Boston's average rate of 68.3% ranked first in average hotel occupancy compared to estimated rates for the other cities. PKF Consulting projects hotel occupancy in Boston for 1992 at 73%, still ranking higher than all the other major North American cities. See *Table 4a* and *Figure 4*.

TABLE 4A. AVERAGE HOTEL OCCUPANCY RATES IN SELECTED CITIES, 1988 - 1992

	1988	1989	1990	Estimated 1991*	Projected 1992	Rank
Atlanta	59.0%	60.0%	62.0%	61.0%	62.0%	10
Boston	74.5%	71.5%	72.2%	68.3%	73.0%	2
Chicago	65.0%	62.0%	61.8%	61.0%	61.0%	11
Dallas	55.0%	61.0%	62.5%	60.0%	62.0%	8
Houston	57.0%	58.0%	62.2%	62.0%	64.0%	9
Los Angeles	71.0%	71.0%	67.0%	64.5%	66.0%	4
New York	77.0%	75.0%	73.0%	67.0%	69.0%	1
Philadelphia	69.0%	70.0%	65.0%	59.1%	60.1%	7
San Francisco	72.0%	72.0%	69.2%	66.0%	69.0%	3
Toronto	73.7%	n.a.	65.9%	58.8%	n.a.	6
Washington D.C.	68.0%	70.0%	66.0%	64.0%	66.0%	5
PKF National Avg.	64.0%	64.3%	67.2%	65.0%	66.9%	n.a.

Note: * Estimated for the full year based on mid - year data for all cities except Boston, where the rate is actual* for 1991. Other cities actual rates were not yet available.

Source: PKF Consulting, "Trends in the Hotel Industry" Annual Forecasts, 1988-1991 and BRA Research Department.

As estimated by PKF Consulting, the average room rate in the City of Boston decreased 3.1% in 1991, to \$116.47 from \$120.21 in 1990, maintaining its rank of second only to New York among large North American cities. Boston's rate was over one and a half times higher than the 1990 national average of \$77.45 for the cities tracked by PKF Consulting. See Table 4b and Figure 4.

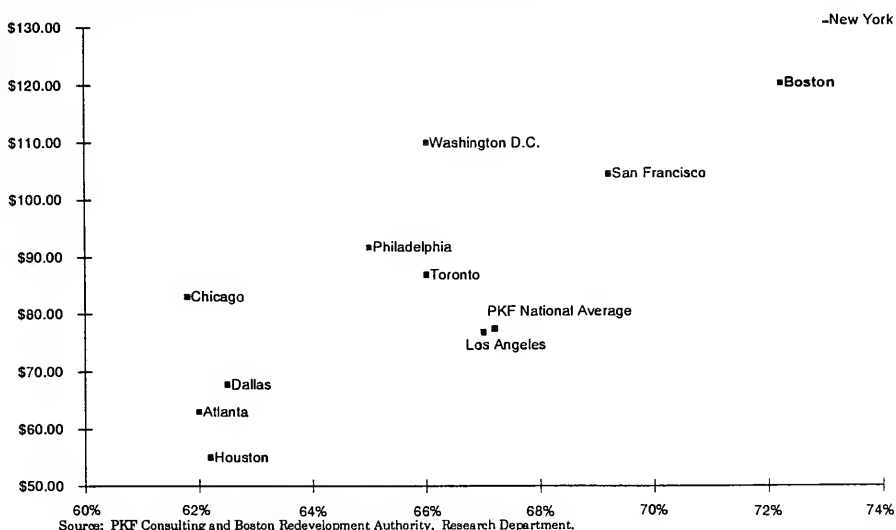
TABLE 4B. AVERAGE DAILY ROOM RATES IN HOTELS IN SELECTED CITIES, 1988 - 1992

	1988	1989	1990	Estimated 1991*	Projected 1992	Rank 1990
Atlanta	\$66.21	\$72.09	\$63.00	\$66.00	\$68.00	10
Boston	\$113.21	\$114.54	\$120.21	\$116.47	\$122.50	2
Chicago	\$79.67	\$76.63	\$83.07	\$83.50	\$85.00	7
Dallas	\$63.00	\$67.94	\$67.77	\$70.00	\$74.00	9
Houston	\$50.00	\$53.38	\$55.02	\$62.00	\$68.00	11
Los Angeles	\$72.50	\$75.40	\$76.85	\$77.00	\$79.00	8
New York	\$124.27	\$129.42	\$131.00	\$126.00	\$128.00	1
Philadelphia	\$87.52	\$78.28	\$91.75	\$89.27	\$92.00	5
San Francisco	\$106.54	\$111.14	\$104.51	\$104.51	\$107.50	4
Toronto	\$74.39	n.a.	\$86.89	\$84.10	n.a.	6
Washington D.C.	\$94.00	\$103.75	\$109.95	\$113.00	\$118.50	3
PKF National Avg.	\$66.73	\$74.83	\$77.45	\$77.74	\$81.17	

Note: * Estimated for the full year based on mid - year data for all cities except Boston, where the rate is actual for 1991. Other cities actual rates were not yet available.

Source: PKF Consulting, "Trends in the Hotel Industry" Annual Forecasts, 1988-1991 and BRA Research Department.

FIGURE 4. OCCUPANCY AND AVERAGE ROOM RATES IN SELECTED CITIES, 1990



Source: PKF Consulting and Boston Redevelopment Authority, Research Department.

The Downtown Boston Hotel Market Compared with Six Other Downtowns

Although fewer tourists and business visitors came to the Boston area during 1991, the hotel market remained strong. Compared to six selected major *downtowns* (where comparable data were available) Downtown Boston placed at the top in terms of occupancy and room rates. In Boston, the downtown included the waterfront, financial district, and Back Bay and excluded Cambridge and the outlying neighborhoods of Boston, which were included in the city-wide rate. See Table 5 and Figure 5.

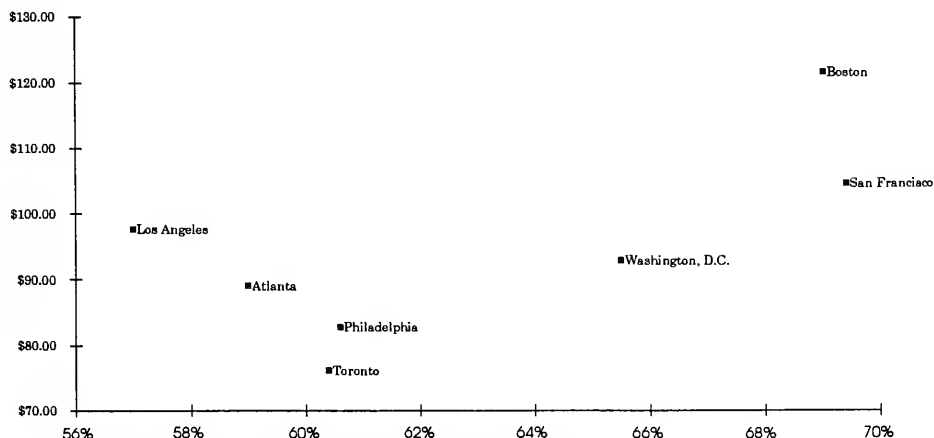
TABLE 5. DOWNTOWN HOTEL MARKETS OCCUPANCY RATE, AVERAGE ROOM RATE AND ROOMS ADDED 1988-1991

	1988 Occupancy Rate	1988 Average Room Rate	1991 Occupancy Rate	1991 Average Room Rate	Rooms Added 1988- 199
Atlanta	59.1%	\$82.35	59.0%	\$89.10	-6
Boston	75.0%	\$116.21	69.0%	\$121.47	0
Los Angeles	69.5%	\$93.14	57.0%	\$97.65	19
Philadelphia	71.4%	\$65.79	60.6%	\$82.84	7
San Francisco	68.3%	\$87.45	69.4%	\$104.51	99
Toronto	76.0%	\$80.72	60.4%	\$76.17	1,776
Washington D.C.	70.3%	\$95.85	65.5%	\$92.84	1,257

Note: Boston occupancy and average daily room rate figures are a weighted average based on both the downtown and Back Bay neighborhoods excluding Cambridge and peripheral city locations.

Source: PKF Consulting, "Trends in the Hotel Industry" Annual Reports 1988 through 1991 and BRA Research Department.

FIGURE 5. DOWNTOWN HOTEL MARKET OCCUPANCY RATE AND AVERAGE ROOM RATE, 1991



Source: PKF Consulting and Boston Redevelopment Authority, Research Department.

Downtown occupancy rates showed Boston with an average hotel occupancy rate of 69.0%, ranking a close second to only San Francisco's rate of 69.4% in 1991. Atlanta, Los Angeles, Philadelphia, and Toronto all had downtown occupancy rates closer to 60% while the Washington, D.C. downtown rate approached 66%.

A comparison of average daily room rates in the seven downtowns placed Boston at the top with a room rate of \$121.47 per day. Only San Francisco and Los Angeles, with room rates of \$104.51 and \$97.65 respectively, came close to downtown Boston.

The number of rooms added from 1988 through 1991 in the seven downtowns totaled 4,876. Boston had no addition of rooms over the last four years. During the same time period, however, several other cities added hundreds of rooms downtown. Toronto, for example, showed a considerable increase with 1,776 new rooms added to the market. Toronto's abundance of development included such projects as the Skydome Hotel with 348 rooms and the Chestnut Park Hotel with 522, among others. This boom, however, caused Toronto's downtown occupancy rate to fall dramatically from 76% to 60%, and edged the average daily room rate down from \$81 to \$76.

Seasonality Factors of Boston, New York and San Francisco

Seasonal patterns of occupancy are evident in most cities, indicating the high and low seasons for travel. An annual average occupancy rate can obscure the presence of wide swings in seasonality. In boom seasons, often times visitors have to be turned away from hotels or meeting facilities that are booked. Conversely, in slack seasons hotels carry many vacant rooms.

In Boston, the occupancy rate is above 70% and even 80% from late spring through the summer and fall seasons, with the peak occurring in October at about 91%. Occupancy then drops from the winter through early spring, with the nadir occurring in January at about 48%. Boston's range from peak to trough is about 46%. *See Table 6 and Figure 6.*

In recent years, at least six months showed occupancy rates usually above 80% in Boston. This six month period of high occupancy suggests that at many times of the year many or most of Boston's hotels are fully booked. At these times, demand for Boston hotel rooms may not be fully met by supply, with potential customers turned away to the suburbs or other cities.

Seasonal data are presented for two other cities with annual occupancy rate data for the years 1988 - 1990. These cities experience neither the trough of Boston's winter nor the sustained peak of Boston's spring, summer and fall. New York City's mean monthly occupancy rate data shows less seasonal variation, most likely due to the size of the city and the tremendous diversity of its economy. Except for the month of July occupancy is usually above average from May through November with a peak at 85% in October, but is only above 80% for three months of the year. Even though New York has a slackened demand from December through April, the low vacancy rate is only 59%, in January. Thus, New York City has a range of 26 points in its vacancy rate, not very much for a northern city.

San Francisco's monthly hotel occupancy trends since 1988 showed neither the peaks nor troughs of Boston's. San Francisco's prime months are March through November with a mean peak at 82% in August, but only in August and October was an 80% occupancy rate reached. In the off-season, hotel occupancy reached a low of 53% in December.

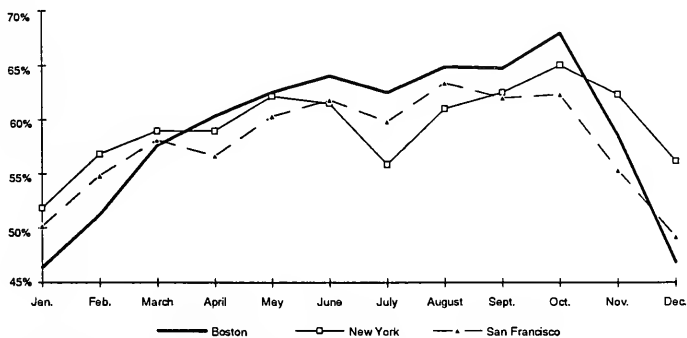
Boston's strong seasonal variations are both an asset and a liability for future growth in the hotel industry. The long period of very high occupancy rates suggests that new hotels would likely fill unmet demand for lodging in Boston during these months. However, new hotels would join existing ones in the search for scarce customers in the winter months. Off season events and marketing will help the hotel market, even without new construction.

TABLE 6. SEASONAL VARIATIONS OF MEAN MONTHLY OCCUPANCY RATES IN THREE CITIES, 1988-1990

Month	Boston				New York				San Francisco			
	1988	1989	1990	Mean Rate	1988	1989	1990	Mean Rate	1988	1989	1990	Mean Rate
January	49	46	48	48	60	57	59	59	54	63	49	55
February	58	52	63	57	69	69	68	69	66	67	61	65
March	71	68	71	70	74	72	73	73	72	73	69	71
April	73	75	79	76	74	74	71	73	68	73	64	68
May	81	79	80	80	82	79	77	79	77	78	72	76
June	85	82	82	83	81	79	74	78	80	77	79	79
July	81	73	86	80	69	64	67	67	79	69	76	75
August	87	85	82	85	79	78	74	77	81	79	85	82
September	87	84	82	84	79	83	78	80	79	79	79	79
October	92	90	91	91	89	84	82	85	89	67	83	80
November	74	72	70	72	82	81	76	80	69	61	67	66
December	49	50	48	49	70	68	64	67	55	54	51	53
Annual Avg.	75	72	72		77	75	73		72	70	69	

Source: PKF Consulting, "Trends in the Hotel Industry", 1988 - 1991 and BRA Research Department."

FIGURE 6. MEAN MONTHLY OCCUPANCY RATES IN THREE CITIES, 1988-1990



Source: PKF Consulting and Boston Redevelopment Authority, Research Department.

IV. OUTLOOK FOR THE HOTEL INDUSTRY

Consistent with projections for overall growth in the Boston economy in the 1990's, projections of demand for new hotels in Boston suggest that hotel development opportunities will be available throughout the decade and beyond. This section of the report will discuss the potential for new hotels in Boston in the context of the regional and national economies and their hotel markets.

Near and Long Term View in The U.S.

The U.S. Government and many of the nation's larger real estate and economic consulting firms prepare forecasts for the hospitality (hotel-tourist-resort-convention) market. Projections often vary from short to long-term views as well as their specificity.

Summarizing national forecasts of the hospitality industry, the consensus is the continuation of what analysts have noted for the past several years, that the oversupply in hotel rooms which occurred as a result of fast-paced development in the 1980s will persist and that moderate demand will take several years to bring some markets back to stability. Nationwide, the hotel market has been constrained by financial factors brought on by overbuilding, the slack economy of the past few years, and the changes wrought by the 1986 Federal Tax Reform Act. Circumstances vary by city and by region of the nation; some metropolitan areas still can be considered more favorably. Although the short-term national outlook of most forecasts tends to foresee only slight growth in demand and little response in supply, the longer-term outlook of many experts does remain optimistic.

The International Trade Administration within the U.S. Department of Commerce produces an annual report, *U.S. Industrial Outlook*, which summarizes trends in a variety of industries for the national economy. The most recent issue, for 1992, contains a chapter, "Travel Services"; the 1990 issue was the last one that had a specific outlook for "Hotels and Motels".

The "Travel Services" section of the 1992 report notes that domestic and international travelers spent \$327.3 billion nationwide in 1990 on goods and services related to travel that amounted to 6% of Gross National Product. In 1991, the number of vacation travelers rose 1% and travel spending rose 3.9% from 1990. Travelers averaged 4.2 nights away from home per trip in all types of lodging. For the hotel and motel industry in the "Travel Services" outlook, it was reported that "receipts of the U.S. Lodging Industry were flat in 1991". However, travel spending did not fall despite both the Gulf Crisis during the first quarter and the generally slower economy throughout the year. Since 1988, international visitor arrivals to the U.S. have grown steadily by about 7% annually. Modes of travel in 1991 showed numbers of passengers on North American cruise ships and Amtrak were up while airline passenger miles and intercity automobile miles traveled were down slightly from the previous year.

Travel trends for 1992 are dependent upon the path of the economy which is forecast as better than 1991. Energy costs edging higher may slow the growth of travel spending to its

lowest percentage rise in six years although growth will remain positive. Long-term prospects through the 1990s continue to be bright because travel is an "integral part of the American way of life" and because international travel to the United States continues to rise. Factors auguring well for travel include "the increasing participation by women in the labor force, smaller families, delayed childbearing, and higher levels of education and income." Significant changes in the travel industry that could also lead to greater travel include: "further consolidation of the airline industry, new forms of travel lodging, the growth of alternatives to traditional means of selling travel, and more effective security measures". Among the negatives may be: "increased airport and highway congestion, the fear of terrorism, and higher air fares". Compared with compound annual growth rates of 6.5% in travel expenditures between 1982 and 1991, the projected rate for 1992 is 4.9% and no specific long - term rates are given.

Demand for Boston Hotel Accommodations to the Year 2005

The Boston Redevelopment Authority's outlook for the hotel industry is based on a long-term view of economic trends in the U.S. economy that was prepared by the U.S. Bureau of Labor Statistics and published in the "Monthly Labor Review" of November 1991. A fifteen year forecast, to the year 2005, is given for the nation's economy, the labor force, industry output, and employment.

The long-term view calls for resumed growth after the slower regional and national economies of the last several years. In Greater Boston, the tourism and hotel business has turned downward from its peak but still remains healthy. Business, convention, and tourist trade should all see growth in the fifteen year period from 1990 to 2005. Economic output, employment and personal income in the United States as well as in Massachusetts are expected to grow after the current recession ends, but at rates below those experienced in the 1980s. In addition, demographic trends also favor increased travel as outlined in the previous section on the long-term view of the economy.

The historical data show that demand for hotel services in Boston grew at a higher rate than both U.S. GNP and national employment levels from 1975 through 1990. Year to year trends in growth of GNP and employment in the U.S. economy may be considered very good leading indicators of demand for Boston hotel services because they have paralleled annual Boston hotel demand trends. In other words, hotel demand depends in large part on the well-being of the national economy as well as on the local economic conditions.

Boston's amenities for lodging and tourism have increased significantly since the mid-1970s and these qualities are, no doubt, factors that enhance the image that Boston provides for convention and tourist travel growth. Furthermore, these Boston amenities have increased only as a result of the higher level of investment and economic activity that occurred in Greater Boston in the same period. Also at the local level, the high quality of professional, business, and financial services offered in Boston is the primary attraction for the business traveler and subsequent hotel business.

Based on the national outlook, the outlook for Boston is for a modest increase in demand for hotel accommodations to the year 2005. The three market segments of hotel demand are: individual business, tourist, and meeting/convention. All together, these factors are likely to generate demand for an estimated 4,027 additional hotel rooms in the Boston and Cambridge area by the year 2005, assuming a steady 70% occupancy rate.

A correlation and regression analysis of the annual data for the 1975 - 1990 time series was done for five variables: Boston hotel room demand, Boston employment, Boston personal income, Gross National Product, and national employment. The results indicated that Boston's hotel room demand growth trends most closely followed GNP growth. The Bureau of Labor Statistics moderate series projected GNP growth rates for the 1990 - 2005 period are expected to be lower than those experienced in 1975 - 1990. Correspondingly, Boston hotel demand growth should be lower. See *Table 7*.

TABLE 7. HOTEL DEMAND PROJECTION

Indicator	Historical	Projection
	1975-1990	1990-2005 U.S.
GNP Annual Growth Rate	2.9%	2.3%
U.S. Employment Growth Rate	2.3%	1.3%
Boston Hotel Room Demand Growth Rate	5.2%	1.8%

The projected national growth rates and Boston hotel room demand are expected to be lower than the historical trend that allowed the construction of 5,000 hotel rooms in Boston from 1978 to 1990 (net gain of 4,400 rooms due to demolition and change of use with 600 rooms lost). The projected growth rate of 1.8%, based on a lower anticipated GNP rate of growth, yields 4,027 hotel rooms for the 1990 - 2005 period or 268 rooms annually. This growth projection seems attainable and would keep the future occupancy rate at around 70%; an occupancy rate that is a solid indicator of hotel services industry health.

This figure was calculated by applying a compound annual growth rate of 1.8% applied to 1990 annual hotel room nights assuming a constant 70% hotel occupancy. Since 1991 data showed a decline, from 1990 this factor reduced annual growth to the year 2005 from 2.3 to 1.8%. Supply would have to increase by 4,027 rooms over 15 years to meet demand growth which would be captured by new hotels constructed in Boston. See *Table 8*.

Prospects for New Hotel Development

The projected demand for hotel rooms in the Boston area through 2005 indicates that the slowed hotel market since 1988 is not a long-term trend. In other words, the Boston market could support about 10 new hotels of 400 rooms over the projected fifteen year period. With no new construction since 1988 in the city, and no delivery of new rooms until 1994, new hotels entering the mid-1990s market will experience steady demand and improving tourism and lodging industries. Compared to a decade ago, Boston hotel developers today

**TABLE 8. ANNUAL HOTEL ROOMS, OCCUPANCY, ROOM NIGHTS, AND ROOM RATE.
BOSTON 1975 - 1991 ACTUAL, AND 2005 PROJECTED**

Year	Hotel Rooms	Occupancy Rate	Annual Hotel Room Nights	Room Rate Current Dollars	Constant Dollars	Implicit Price Deflator
1975	6,227	64.1%	1,456,900	\$25.99	\$61.86	2.38
1976	6,227	70.9%	1,611,454	\$29.68	\$66.48	2.24
1977	6,925	70.1%	1,771,865	\$31.68	\$66.21	2.09
1978	7,373	77.2%	2,077,564	\$35.01	\$67.92	1.94
1979	7,200	77.6%	2,039,328	\$40.93	\$73.26	1.79
1980	6,907	75.8%	1,910,960	\$49.76	\$81.11	1.63
1981	7,317	72.4%	1,933,590	\$60.39	\$89.38	1.48
1982	8,205	68.1%	2,039,476	\$69.11	\$96.75	1.40
1983	9,009	68.1%	2,239,322	\$74.18	\$99.40	1.34
1984	10,154	69.5%	2,575,816	\$81.20	\$104.75	1.29
1985	11,253	68.9%	2,829,961	\$85.24	\$105.70	1.24
1986	11,536	72.3%	3,044,293	\$90.79	\$109.86	1.21
1987	11,792	73.3%	3,154,891	\$101.60	\$118.87	1.17
1988	11,792	74.5%	3,206,540	\$113.21	\$127.93	1.13
1989	11,792	71.5%	3,077,417	\$117.61	\$127.02	1.08
1990	11,792	72.2%	3,107,546	\$120.21	\$125.02	1.04
1991	11,792	68.3%	2,939,687	\$116.47	\$116.47	1.00
2005	15,819	70.0%	4,041,661			
Boston Hotel Room Demand Growth Rates						
	1988-1991		-2.9%			
	1986-1991		-0.7%			
	1981-1991		4.3%			
	1975-1991		4.5%			
	1975-1990		5.2%			
Projected	1990-2005		1.8%			

Note: Hotel room nights were computed as hotel rooms times 365 days times occupancy rate.

Source: Hotel room count from the Boston Redevelopment Authority. Occupancy Rate and Room Rate from PKF Consulting. Implicit Price Deflator for GNP from U.S. Department of Commerce.

face tough challenges in terms of available sites, cost of land, competing investments, financing availability, and community plans. Development of luxury and first class hotel rooms dominated the hotel industry during the last fifteen years in and around downtown Boston. Of the 4,919 rooms built between 1978 and 1991, all but 343, or 7%, were in the luxury and first class categories. Recent trends still show that the luxury lodging market is still the strongest. Mid-level and budget hotels comprise only 30% of the City's hotel rooms and are mainly located on the periphery of downtown, compared to a 43% city wide share of mid-priced and budget hotels in 1977. That share is low compared to most other major cities.

Boston's higher priced hotels continue to experience high occupancy levels and the first class luxury market may still present the best development opportunities. As Figure 2 indicated, occupancy rates in hotels priced at \$100 and above in Greater Boston have held up strongly over the past three years, while those priced under \$100 have experienced decreases in occupancy rates.

To summarize, Boston has hotel development opportunities. The market readily absorbed the nearly five thousand hotel rooms built in Boston between 1978 and 1988, as the City's annual average occupancy rate never fell below 68%, with a reported average of 72.3% for 1982 through 1991 time period. After three years of a slack hotel market in Boston, hotel development opportunities should again be available with particular strength toward the middle and end of the decade.

Three new hotel projects have been identified by the BRA as actively in progress, which will add 940 new rooms; in addition, three other hotels have modernization plans. Already under construction is a 270-room Hyatt Hotel and Conference Center at Logan International Airport, scheduled for completion in late 1993. Two other new hotel projects are in the planning stages. Awaiting financing is a 340-room luxury hotel by Beal Company and Hotel Intercontinental, using the renovation of the Custom House and the Board of Trade Building for an estimated development cost of approximately \$100 million. If financing were obtained in Summer 1992 then construction beginning in September would target completion for late 1994.

The third hotel, planned by The John Drew Company, is scheduled to have 330 rooms and is to be built at a site across from the World Trade Center on Commonwealth Pier in the Fort Point Channel section of South Boston. Depending on the status of the Third Harbor Tunnel construction and hotel project financing, at present status, construction would begin somewhere between late 1992 and early 1993, and the hotel would open sometime between late 1994 and early 1995. A fourth new project, the Lewis Wharf hotel and condominium project on the waterfront, recently was suspended because of problems in securing financing and owner decisions to restructure property ownership interests.

The three hotel modernization projects currently planned include renovations of \$30 million at the Parker House, \$15 million at the Swiss hotel (formally the Hotel Lafayette) and \$5 million at the Holiday Inn at Charles River Plaza.

Regional Issues Affecting the Boston Hotel Market in the 1990s

The hotel market in downtown Boston and the surrounding city areas must be viewed in context of the greater Boston region for a more accurate comparison of hotel performance in the future.

One reason that the greater Boston area had a more slack hotel market after 1988 was that numerous new hotels were built around the region, even in less centrally located areas, which resulted in a surplus of rooms and higher vacancy rates in many of these areas. Certainly the state and regional hotel occupancy rates are lower than they would have been had more restraint been exercised by suburban planners and financiers.

The core areas of downtown, Back Bay and Cambridge are the best locations for business, tourist, and meetings visitors who need to be near downtown for business, leisure, or meeting purposes. In addition, the transportation system of airport, mass transit, taxicabs, and the pedestrian environment are very much in favor of these areas. Perhaps only the out-of-town driver or rental car customer can be as equally well served in the suburbs: or

for reasons to be near businesses or tourist attractions in those suburban cities and towns. Even though the areas in and around downtown Boston seem to be the strongest as shown by the data, a watchful eye must be kept on the suburbs because of market competition.

Other cities in eastern New England such as Providence, Worcester, and Hartford also affect Boston's hotel market to some extent by their facilities, such as for sports, entertainment, and convention meetings. Boston may lose business to some of these cities given a fixed regional market. Nevertheless, the improvement of Boston's facilities since the mid-1980s as well as development of a New Boston Garden to open in 1995 will help Boston.

Market segmentation is also a factor in the region. Greater Boston has the full range of lodging facilities that proliferated in the 1980s under robust "market segmentation" of hotel development properties. These include such categories of hotels as: super-luxury, luxury, all suites, first-class, convention, and budget. Downtown does have a preponderance of the expensive luxury hotels because of real estate finance and the economic market selection of "highest and best use". Nevertheless, Boston does realize the advantage of having a mixture of hotels, including the less expensive variety, and may encourage development of these around fringe areas of downtown for the budget conscious visitor.

Another regional factor for the 1990s affecting downtown will be the Central Artery/Third Harbor Tunnel project. Throughout the decade of the 1990s construction in and around downtown will have an impact on noise, traffic disruption, parking, and the tourist ambience. The State, City and the private sector are working together to prepare a detailed construction staging program and mitigation measures designed to allow downtown to operate smoothly during construction, including having both emergency and normal access for pedestrian and vehicular activity available at all times. Thus, the public infrastructure projects of the 1990s should not disrupt the tourist and lodging environment of downtown Boston.

V. BOSTON'S VISITOR INDUSTRY AND ITS PROMOTION

Greater Boston is the most popular destination in Massachusetts, accounting for 44% of all overnight trips to the state. Visitors represent the basis of business activity for hotels, restaurants, meeting facilities and tourist attractions. According to Massport, in Fiscal Year 1991 the 5.2 million visitors (out of the 8.2 million visitor total) arriving in Boston from around the world spent an average of \$317 per domestic visitor trip and \$792 per foreign visitor trip, excluding air fare. Direct spending by these visitors in the Boston area was close to \$2 billion for the year. This spending included food, hotels, local transportation and entertainment.

Visitors as used in this report are classified as tourists visiting for pleasure or personal reasons, attenders of conventions and meetings drawing participants from outside the region, and individual business travelers. Each one of the three types of visitors offers economic benefits for Boston. Combined, they represent a significant segment of the City's overall economy, with solid prospects for further growth in the future. This profile of visitors does not count persons touring locally from within the region. *See Table 9.*

TABLE 9. GREATER BOSTON VISITOR AND ECONOMIC IMPACT TRENDS, 1985-1991

Visitors in Millions of People

	Total Visitors	Tourists	Business	Conventions	Other
1985	7.3	3.9	2.4	0.8	0.2
1986	8.1	4.4	2.6	0.9	0.2
1987	8.5	4.6	2.8	1.0	0.2
1988	8.8	4.8	2.9	1.0	0.2
1989	8.3	4.4	2.6	1.0	0.2
1990	8.5	4.5	2.7	1.1	0.2
1991	8.2	4.3	2.6	1.1	0.2

Economic Impact in Billions of Dollars

	Total Visitors	Tourists	Business	Conventions	Other
1985	4.6	1.6	2.0	1.0	0.2
1986	5.3	1.8	2.2	1.1	0.3
1987	5.9	2.0	2.4	1.2	0.3
1988	6.3	2.1	2.6	1.3	0.3
1989	6.3	2.0	2.5	1.5	0.3
1990	6.5	2.1	2.6	1.5	0.3
1991	6.4	2.0	2.6	1.5	0.3

Source: Greater Boston Convention and Visitors Bureau.

Tourists

Tourists account for one-third of the total economic impact of Greater Boston's visitor industry and one-fifth of all hotel room nights sold. According to the Greater Boston Convention and Visitors Bureau, Boston and its suburbs attracted 4.3 million tourists in 1991 which in turn generated nearly \$2 billion in spending impact.

International tourism to Boston is becoming a very important part of the visitor industry. The six New England states hosted 3.2 million international visitors in 1990, according to the New England Governors' Conference. In Massachusetts, according to the Office of Travel and Tourism (MOTT), international visitors totaled 1.5 million in 1990, up from 1.3 million in 1988. Four nations- Canada, Japan, England and France- accounted for over 900,000 of these tourists. Japanese and British visitors have been increasing the fastest in recent years. MOTT also reported that international travelers accounted for 5% of total visitors to the State but 14% of all travel revenues in 1990.

Business Visitors

In 1991, the Boston area hosted 2.6 million business visitors. Business visitors have an estimated economic impact of nearly \$2.6 billion on the greater Boston economy and are attracted to the hotels that are located closest to the centers of economic activity in downtown Boston and Cambridge.

Local and regional economic conditions may have been constraining the increase of business visitors over the last three years. However, many of Boston's main economic activities, specifically educational, medical, and financial services, as well as business, real estate, and legal services, often require face-to-face meetings, which continue to call for much business travel in the 1990s.

Meeting and Convention Visitors

Although fewer tourists and business visitors came to the Boston area during the last year, growth in conventions and meetings took up the slack. In 1991, the number of meeting visitors reached 1.1 million, up from 800,000 in 1985. Based on World Trade Center data, about one-third of their attendees come from outside of the region and are likely to use hotels. The Greater Boston Convention and Visitors Bureau reports that for convention attendees who stay in hotels the average length of stay is 4.1 days and average daily spending is \$200 per visitor including hotel expenses.

Boston attracts a variety of convention groups that include business and professional associations to regional trade and gate shows. Because of Boston's diverse knowledge based economy, the City is well suited to host events relating to health care, the computer industry, and higher education. To accommodate the growth of this segment of visitors to Boston, capacity for a variety of conventions and exhibition events in Boston has been upgraded over the last six years with the completion of the Bayside Exposition Center, the World Trade Center, and the expanded Hynes Convention Center.

Marketing Boston's Tourism

In addition to providing economic benefits to the regional economy, the hotel and convention industry does much to promote a positive image of Boston. If a City is known by its hotels, then Boston's image has improved tremendously in the last ten years. Marketing programs, high quality accommodations and services, and other visitor activities sponsored by the industry do much to enhance the experience of visitors that come to Boston.

Boston's hotel occupancy is constrained by the seasonal fluctuations in the number of overnight visitors. The winter months of December through February typically bring occupancy down to 45 - 50%. If marketing programs are used, average monthly occupancy rates would only have to be raised by 5 percentage points to increase room sales by \$5.3 million (assuming unchanged average room rates). If all of the additional hotel rooms sales were made to out-of-state visitors, the total annual economic benefit to the Commonwealth would be \$34.1 million.

Boston hotels could absorb more visitors during the months of March, April, July and November when occupancy ranges from 65 to 75%. During the busiest months - May, June, and August through October - the current hotel stock has had an average occupancy ranging from 75% to 90%. Weekend emphasis would help in the busier months, as hotel occupancy also follows a weekly pattern of higher room sales on weekdays, supported by business and convention visitors, and lower sales on weekends when tourists are the primary guests.

Boston is working to raise hotel room occupancy rates in the off-season. In the past two years, "the Boston Festival" in February has featured shopping, theater, and arts. Other ideas include invitational sports tournaments, competitive academic events, holiday packages that combine skiing in northern New England with visits to Boston attractions, and winter business ventures or conventions. Merchants might offer discounts or rebates to fill out a visitor package in the winter and spring. During spring and late fall, similar programs could focus on attracting weekend, overnight visitors.

Recent marketing strategies to promote tourism have been taken by the Greater Boston Convention and Visitors Bureau, the City of Boston, and the local hotels. Specific efforts to offset seasonal fluctuations and increase visitors and hotel occupancy during the off-peak months of December, January and February have included "First Night" celebrations of New Year's Eve and "The Boston Festival", a week-long winter gala of performing arts exhibitions and special events for "Black History Month" in February. Special marketing efforts for tourism during the rest of the year include: The successful bid of Greater Boston to become one of nine regional sites of the World Cup Soccer Tournament in the U.S. in 1994, International travel promotion to European countries, the 1992 Sail Boston Tall Ships week in July and HarborFest in the Fall.

Efforts to upgrade Boston's cultural, tourist, and sports attractions are proceeding with an eye toward stimulating the economic benefits of travel to the city and region. A list of such near-term projects includes: A New Boston Garden with better and larger capabilities for sports, entertainment, or convention activities; the renovation of two historic sites, The Old

State House and Faneuil Hall, by the National Park Service; an expanded Children's Museum, and construction of civic memorials such as the Holocaust Memorial sculpture.

Marketing of tourism is provided by the Commonwealth through the Massachusetts Office of Travel and Tourism (MOTT) under the auspices of the Executive Office of Economic Affairs. The Fiscal Year 1992 budget of MOTT is now \$7.2 million, a 59% increase over the FY91 budget due to a supplemental increase signed into law in November 1991. Advertising and marketing programs are developed that seek to increase travel from domestic and international markets to Massachusetts. Its programs include broadcast and print advertising, public relations, promotional programs, consumer travel guides, trade shows, and group tour marketing. In addition, the budget for the regional grant program is \$2 million which funded 13 local tourist councils, according to legislative mandate, on the basis of a one-to-one match of private funds for special regional efforts. Greater Boston received \$727,212 for FY92 of these funds for basic marketing programs such as advertising, publications, and public relations for regional efforts in concert with statewide marketing.

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